FINANCIAL PROCEDURES UNDER PUBLIC LAW 480

Emphasis on Titles I and IV of the Agricultural Trade Development and Assistance Act

Foreign Agricultural Economic Report No. 17

Economic Research Service
Development and Trade Analysis Division
U.S. Department of Agriculture

PREFACE

The information in this report was compiled as an aid to U.S. Government officials in the Departments of State, Treasury, Defense, Commerce, Agriculture, and other agencies associated with the P.L. 480 programs, and foreign government officials of nations that are now receiving aid through these programs or that may expect to do so. It should also be helpful to private exporters in the United States who wish to enter into the programs, to U.S. and foreign private enterprises that might receive loans of foreign currencies under conditions specified in the law, and to U.S. and foreign banks dealing in international financial transactions. In addition it should interest economists, farmers, educators, and all who are concerned with the simultaneous existence of overabundance and food shortages.

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Emphasis on Titles I and IV of the Agricultural Trade Development and Assistance Act

by

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This report explains the usual financial procedures used in transactions under Titles I and IV of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). Emphasis is placed on the international financial procedures employed in these programs and on the fiscal movement and accounting of U.S.-owned local currencies in the U.S. Department of the Treasury. The publication extends somewhat beyond a discussion of these two aspects, however. It presents a view of an entire P.L. 480 program, from the acquisition of surplus U.S. agricultural products to final sale of the products to a foreign country and the subsequent utilization of the currencies generated. Also included is a brief description of the programs carried out under the other two titles of the law, Titles II and III.

The material in this publication was gathered from conversations with Government officials concerned with the P.L. 480 programs and from office memorandums, circulars, regulations, and published works of a number of Federal agencies. It is presented as nontechnically as possible. The essence of the material is shown in graphic form. Thus, for the reader who has little previous knowledge of P.L. 480 transactions, the report provides the guidelines to understanding the financial operations and the program itself. For the reader whose work is connected with one or more facets of the P.L. 480 program, this report places his work in perspective by indicating the operations which occur before and after he performs his duties and by showing the interrelationship of the parts of the program.

Part I. The Price Support Program and Its Relationship to Public Law 480

It has been the policy of the U.S. Government to assure a productive and prosperous agricultural sector through the use of agricultural price support programs. These programs have to a large extent been successful but they have led to the acquisition of a fluctuating inventory of surplus agricultural

commodities. One of the devices to achieve constructive use of this inventory is the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480).

The Commodity Credit Corporation (CCC) is the agency, within the Department of Agriculture, charged with the function of approving and financing the farm price support program. The operational arm of CCC is the Agricultural Stabilization and Conservation Service (ASCS), which actually administers the price support program. Individual farmers have direct contact with the county office and the county committee of ASCS. The county committee is made up of three farmers, elected annually at a county convention, and the county extension agent, who is an ex-officio member or serves as the committee secretary without voting rights. Each ASC county committee employs a county office manager who hires the necessary employees for office and field work and supervises the day-to-day operations. The county committee is, however, responsible for administrative policies and decisions at the county level.

Price supports are either mandatory or permissive, depending upon the commodity. Mandatory supports are authorized by law, as are the ranges within which the support level must be set. Permissive price supports are established at the discretion of the Secretary of Agriculture. In 1963 price support was mandatory for wheat, cotton, rice, tobacco, peanuts, corn, rye, barley, sorghum grain, oats, tung nuts, honey, milk, butterfat, wool, and mohair; and under permissive authority support was extended for cottonseed, flaxseed, soybeans, dry edible beans, and naval stores. Supports are implemented by loans, purchase agreements, purchases, or payments.

Price support loans.--In the case of grain, for example, the farmer applies to the ASCS county office for a price support loan on the commodity. A member of the staff checks to assure the eligibility of the producer (e.g., compliance with acreage allotments) and the eligibility of the commodity. If the commodity is to be stored on the farm, an official from the county office checks the grain and inspects and seals the bin. 1/ The farmer signs a promissory note and a chattel mortgage and receives his loan.

The ASCS county office either disburses the loan by issuing to the farmer a draft, drawn on CCC, or permits a local bank selected by the farmer to disburse the loan. In the latter case the farmer receives a "certificate of interest," which is an interest-bearing instrument when held by the bank named in the certificate. That is, the bank begins earning interest from the date on which the loan is disbursed to the farmer in exchange for the certificate. Certificates mature on August 1 of the year following the date of issue, but may be redeemed at any time prior to maturity. The certificate is an obligation of CCC. Through this means local banks participate in the underwriting of the CCC price support program.

It may be to the farmer's advantage to forfeit his collateral in satisfaction of the loan obligation. If the market price does not rise high enough to induce him to pay off his loan and sell his commodity on the open market,

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1/ The largest part of the CCC inventory, especially wheat and cotton, is stored in public storage facilities. In this case the farmer receives a warehouse receipt for the commodity, which he presents at the county office when applying for his loan.

he may, without penalty, forfeit the commodity in liquidation of the loan. If, however, he decides to pay off the loan, he must pay interest at a rate established by CCC (this rate was 3½ percent per year as of March 1, 1964).

Purchase agreement.--A purchase agreement is an agreement on the part of CCC to purchase from the farmer, at his option, a specified maximum amount of a commodity at the support price. The county ASCS office issues an agreement to buy, for example, 1,000 bushels of corn. The farmer is required, within a specified 30-day period, to declare his intention to sell under the purchase agreement. If market prices are low and he elects to sell to CCC, he may sell only up to the stated maximum amount. CCC is under obligation to buy, but the farmer is not required to sell.

Purchases.--Purchases are used to support the prices of milk, butter, cheese, butterfat, and nonfat dry milk. CCC buys butter, cheese, and nonfat dry milk directly from processors (who must pay specified minimum prices to producers), to maintain the general level of commercial prices for these and related products, such as milk and butterfat. Cottonseed prices are supported by direct purchases from ginners, and from producers whenever nonparticipation by ginners makes such purchases necessary.

Payments.--Incentive payments have been made directly only to producers of wool. A producer of wool (or mohair) sells through normal commercial channels and obtains a sales receipt. He then presents the receipt and an application for payment to the ASCS county office, which pays him the difference between the previously announced incentive price and the average commercial price.

CCC inventory.--As a result of the operation of the price support program, CCC acquires a fluctuating inventory of agricultural products which are held in storage pending disposal through the P.L. 480 program and other programs. Quantities and acquisition costs of the major items in the inventory of CCC as of December 31, 1963, are given in table 1.

Disposal programs.--Congress enacted the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) to achieve optimum use of agricultural surpluses, and to this end sought to stimulate foreign trade in surplus agricultural commodities produced in the United States. The Act defines "surplus agricultural commodity" as any agricultural commodity or product thereof, which at the time of export exceeds domestic requirements, adequate carryover, and anticipated exports for dollars, as determined by the Secretary of Agriculture. This definition may include commodities not currently in the CCC inventory.

Primary responsibility for administering P.L. 480 has been given to the Secretary of Agriculture, who acts in consultation with other U.S. Government agencies affected.

Title I of the Act, to date by far the most important section in terms of volume of surplus agricultural products exported, provides for the sale of U.S. farm commodities for the currency of the recipient country. Title I programs are generally undertaken in friendly countries which lack the necessary foreign exchange to obtain their total requirements of U.S. agricultural

Table 1.--Commodity inventories held by CCC under price support program, December 31, 1963

Commodity	Quantity	Value (cost)
	Units	Dollars
Cotton:		
Cotton, extra long staple	37,068 bales	9,811,931
Cotton, upland	5,918,389 bales	977,862,467
Grains:		
Barley	41,132,953 bu.	36,468,919
Beans, dry edible	182,218 cwt.	1,382,841
Corn	849,055,749 bu.	1,046,095,750
Flaxseed	3,227,869 bu.	9,492,881
Grain sorghum	585,453,864 bu.	649,312,619
Oats	18,787,079 bu.	11,285,919
Rice, milled	6,803 cwt.	74,390
Rice, rough	1,530,472 cwt.	8,140,448
Rye	869,007 bu.	891,044
Soybeans	282,804 bu.	627,459
Wheat	982,272,898 bu.	1,970,622,675
Bulgur	8,658,636 lb.	468,805
Milk and butterfat:		
Butter	207,358,702 lb.	120,322,999
Butteroil	83,005,994 lb.	64,757,536
Cheese	40,470,167 lb.	15,350,021
Ghee	559,345 lb.	439,396
Milk, dried	553,899,423 lb.	81,458,466
Oils and peanuts:		
Cottonseed oil, refined	2,697,219 lb.	463,362
Peanuts, farmers' stock	87,969 lb.	10,289
Peanuts, shelled	55,664,161 lb.	9,446,989
Vegetable oil, products	4,540,864 lb.	724,324
Exchange commodities:		
Strategic and critical materials in process of transfer to the supplemental stockpile	---	7,511,113
Total	---	5,023,022,642

Source: U.S. Dept. Agr. ASCS. Report of Financial Condition and Operations. December 31, 1963.

products through regular commercial purchases. As of December 31, 1963, $7,191 million worth of commodities had been shipped under this program.

Title II provides for grants of food for disaster relief and other assistance, such as child feeding programs and food used as wages for workers on development projects. The Agency for International Development administers this program; $1,025 million in surplus agricultural products (mostly grain) had been shipped under Title II by December 31, 1963.

Title III provides for (1) domestic and foreign donations of food for distribution by nonprofit voluntary relief agencies of the United States and international organizations, and (2) barter of surplus food and fiber in exchange for strategic and other materials for stockpiling and for equipment, goods, and services needed by U.S. Government agencies. All food donated to foreign countries is clearly labeled in English and in foreign languages as being "Donated by the People of the United States of America." Shipments under Title III totaled $3,116 million as of December 31, 1963.

Title IV of the Act is implemented in those countries which have made substantial progress in their economic development but are not yet in a financial position to deal with the United States on a straight commercial basis. Under this program long-term dollar credit sales of surplus agricultural commodities are made to friendly countries. The Act provides that deliveries may be scheduled for as much as a 10-year period and repayments may be spread over a maximum of 20 years, including a 2-year grace period, with interest not in excess of the cost of money to the U.S. Treasury. These are, however, terms of maximum leniency and most agreements actually negotiated include provisions rather more stringent. As of December 31, 1963, $94 million in surplus agricultural commodities had been shipped under this program. The value of U.S. agricultural exports shipped annually under all titles of P.L. 480 from its inception through June 30, 1963, is shown in figure 1.

A recent amendment to Title IV also authorized the Secretary of Agriculture to enter into long-term dollar credit sales agreements with U.S. and foreign private trade entities. Under this arrangement negotiations are carried on and sales agreements are signed between the U.S. Government and private companies in the foreign countries, rather than on a government-to-government basis. 2/ The procedures described in parts II and III of this report are applicable only to the government-to-government programs.

In addition to the foregoing, the CCC sells some of its commodities on short- and medium-term credit to further stimulate export sales of agricultural products for dollars. Under the Export Credit Sales Program a U.S. exporter may apply to the U.S. Department of Agriculture for a credit approval to purchase CCC commodities. This enables him to purchase these commodities

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2/ As of March 1, 1964, no agreements between the U.S. Government and private trade entities located abroad had been negotiated. The analysis in this report applies only to government-to-government agreements.

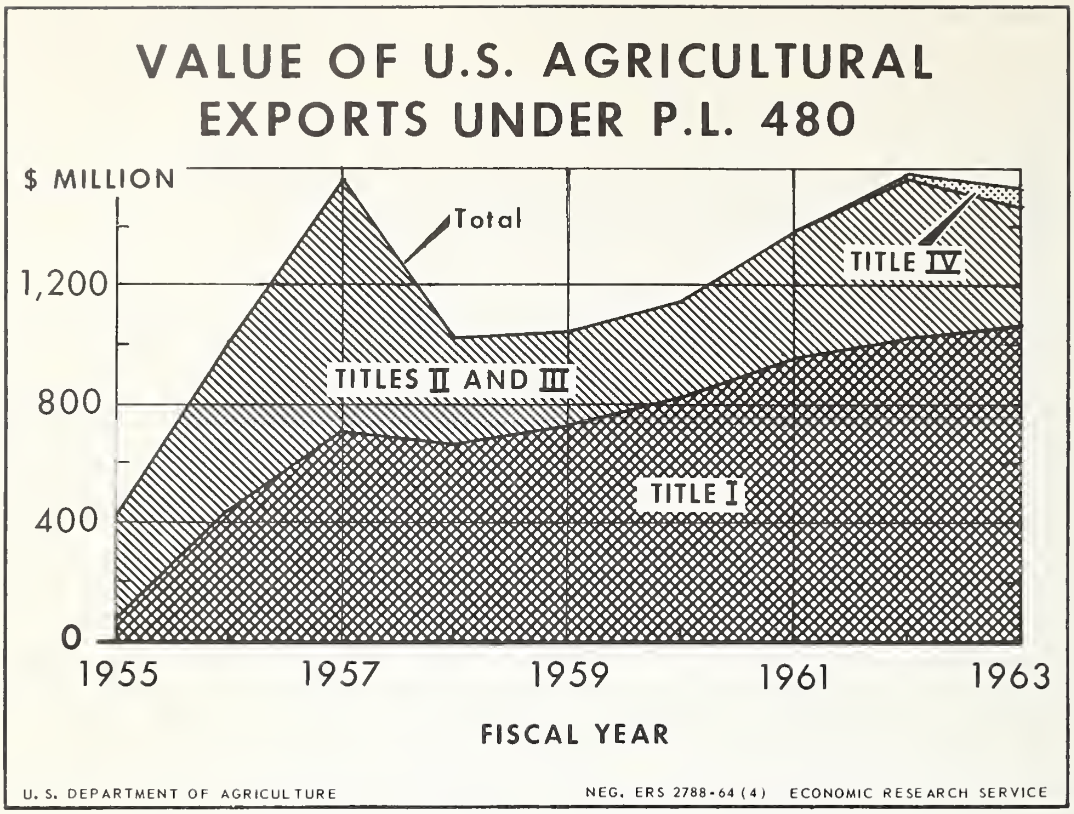

Figure 1

for export and to defer payment for up to 3 years. 3/ Payment for all purchases must, however, be assured by a bank in the United States, usually by means of an irrevocable letter of credit.

These are some of the efforts of USDA to expand the world market for U.S. agricultural goods through the gradual cultivation of customers. The next section explains the financial operation of two of the most important parts of the P.L. 480 program, Titles I and IV.

Part II. International Transactions

The following narrative explains the financial operations which occur in connection with the implementation of a P.L. 480 sales agreement. Numbered paragraphs correspond to numbers shown on figure 2.

1. Signing the agreement.--The first step in the implementation of a program under Title I or Title IV of P.L. 480 is the negotiation of a sales agreement. The agreement stipulates the terms of sale, the maximum dollar

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3/ Sales made by the CCC, from the start of the program through December 31, 1963, totaled $270 million. In calendar year 1963, 72 percent of credit approvals were for 6 to 12 months; the remainder were for over 12 months and up to 36 months.

amount, and the approximate quantity of commodities to be purchased under the agreement, as well as quantities to be purchased commercially to meet usual marketing requirements. A Title I agreement specifies the appropriate exchange rate and states what percent of local currencies received will be reserved for U.S. use and what part for use by the foreign country; a Title IV agreement stipulates the payment period, interest rate, and schedule for repayment of the dollar credit. Agreements are negotiated on a government-to-government basis primarily to obtain assurance that (1) the foreign country will protect usual marketings (it will continue to import given commodities from its usual commercial suppliers to the extent of its ability, which is generally measured by a record of actual imports for recent years), (2) commodities will not be transshipped without prior approval by the U.S. Government, and (3) foreign currencies generated will be used for purposes approved by both governments.

The agreement stems from a request submitted by a foreign government, sometimes following discussion with U.S. Embassy officials. The request generally includes an explanation of economic factors underlying the request and a list of specific commodities and quantities desired. The agricultural attache and other members of the U.S. Embassy formulate a recommendation concerning the P.L. 480 request. The request is reviewed by USDA, which considers such factors as surplus availability in the United States of the commodities requested, the importing country's ability to increase consumption, and the relation to dollar sales and exports of friendly countries.

The Department then submits a proposal to the Interagency Staff Committee in Washington, D.C. The proposal is analyzed, modified, and accepted or rejected by the Committee, which includes representatives from the Departments of Agriculture, State (represented by the Agency for International Development), Treasury, Defense, and Commerce, and from the Bureau of the Budget, and the U.S. Information Agency. This Committee, which is chaired by a representative of USDA, thoroughly considers such factors as legislative requirements and surplus disposal objectives, projections of U.S. needs for local currency in the recipient country, import requirements in relation to domestic production, production plans and usual marketings of traditional suppliers, the possibilities for barter, and the effect of the program upon the U.S. balance of payments. The recipient country's internal and external financial position is analyzed to determine whether the country should have commercial sales, CCC credit, a Title IV program, or a Title I program. If a Title IV program is decided upon, the National Advisory Council on International Monetary and Financial Problems is advised and its views requested. Following all adjustments and negotiations between the two governments, a final version of the agreement is signed by representatives of the two countries.

<u>2. Purchase authorization</u>.--The importing country applies (through its embassy in the United States) to the Foreign Agricultural Service of the Department of Agriculture for an authorization to purchase agricultural commodities. The purchase authorization (P.A.) specifies the particular grade or type of commodity to be purchased, the approximate quantity, the maximum dollar amount, the periods during which contracts between importers and (U.S.) exporters may be entered into, and the time span during which deliveries must be made. The P.A. is more specific and limited than the P.L. 480 sales

agreement. The agreement may, for example, describe the import merely as "wheat," while the P.A. will stipulate "U.S. No. 1 Hard Red Winter Wheat." Each P.A. receives a number which must appear on all further documentation concerning the transactions.

Purchase authorizations are issued periodically, usually for only a part of the total amount of one of the commodities called for in the agreement. Purchase authorizations are programed in a way to minimize disruptive effects upon world prices of agricultural commodities and upon normal commercial trade of the United States and other friendly countries. Such things as the availability of port facilities and ocean shipping are carefully considered. Purchase authorizations may be held up if a review of the program indicates that the recipient country is not living up to the terms of the agreement, or if general economic and political conditions change so greatly that a reconsideration of the entire program is deemed necessary.

USDA issues a public announcement each time a purchase authorization is issued. U.S. exporters are thus encouraged to participate in the program and to familiarize themselves with the provisions of the general regulations and the individual purchase authorization.

3. Subauthorization.--The government of the importing country issues a subauthorization to an importer (or importers) to purchase commodities pursuant to P.L. 480 regulations and provisions of the authorization. The importer may be a private firm or an agency of the country's government. At the same time the recipient country government will designate a bank in that country and a bank (or banks) in the United States to handle all transactions. The foreign bank may be the central bank or a commercial bank; if a commercial bank is chosen it usually has a correspondent relationship with the designated American bank.

4. Letter of commitment.--The importing country requests CCC to issue a letter of commitment to each U.S. bank designated to handle transactions. The letter of commitment names the foreign bank, the U.S. commercial bank, and the Federal Reserve Bank which is to act as the agent of CCC. It constitutes a firm commitment by CCC to reimburse the U.S. bank for payments made to exporters named in letters of credit issued by the foreign bank. The letter of commitment stipulates that the U.S. bank must submit to CCC the appropriate documents required by P.L. 480 regulations and by the purchase authorization. After the U.S. bank accepts the letter of commitment a copy is forwarded by CCC to the foreign government embassy.

5. Contract.--The designated importer contracts with a U.S. exporter for purchase of the commodity. The importer may choose his supplier by any criterion he wishes, but must inform him that the transaction is taking place under P.L. 480 and must acquaint him with the terms of the purchase authorization. The contract price, mutually agreed upon by the importer and supplier, may not exceed the prevailing range of export market prices. Compliance with this regulation is verified by USDA. For most commodities, the supplier is required to submit the contract to USDA for review and approval at the time of sale. The supplier must present the signed price approval notice, along with other required documents, to the U.S. bank to receive payment.

6 (a and b). Letter of credit.--The importer applies to the designated bank in his country for a letter of credit in favor of his chosen supplier in the United States. A letter of credit is a financial document issued by a bank which agrees to honor drafts drawn upon it by a specified person, usually the exporter, under certain stated conditions (e.g. in exchange for a bill of lading or other documents). The letter of credit is issued by the foreign bank and confirmed or advised by the U.S. bank. The U.S. bank then notifies the exporter that he may draw upon an account set up for this purpose, if he does so under the conditions stated in the document. The "confirmed" letter of credit constitutes a guarantee to the exporter since the credit of the American bank is pledged. In the case of the "advised" letter of credit CCC is the guarantor of dollar repayment. Either type of letter may also be an irrevocable letter of credit, and this is usually the case in P.L. 480 transactions. Such a letter states that the letter cannot be canceled until a stipulated period of time elapses, nor can the terms be altered, without the consent of both parties.

7. Purchase of commodities.--The exporter buys the commodity from regular commercial sources or from CCC. Because U.S. domestic market prices for commodities such as wheat and cotton (which comprise over two-thirds of P.L. 480 shipments by value) are usually higher than world market prices, USDA makes export subsidy payments which equal the difference between the U.S. price and the world price for these and other commodities. These payments are made with payment-in-kind certificates which may be exchanged for CCC-owned commodities in the amounts and kinds listed in the certificate. (An exception is that wheat flour subsidies are paid in cash.) All wheat grain export payments, for example, are made with payment-in-kind certificates at a rate decided upon by the ASCS and announced daily. Export payment rates for feed grains are established through competitive bids of exporters, who submit bids in cents per bushel for an estimated amount of quantities to be shipped. The export payment rate on rice is announced weekly.

The importer arranges for ocean shipping if commodities are to be shipped on an f.o.b. or f.a.s. basis ("free on board," "free along side"). If the shipment is to go c. and f. or c.i.f. ("cost and freight," "cost, insurance, freight") the vessel is booked by the U.S. supplier. In any case, the shipping company delivers a bill of lading to the exporter when the goods are loaded. A bill of lading is a receipt for the commodities loaded on board; it is signed by the ship's master or other duly authorized person. It is a document of title of ownership to the goods described in the bill, and it serves as evidence of the terms of carriage agreed upon.

Public Law 664, 83d Congress (Cargo Preference Act), requires that at least 50 percent of the tonnage shipped under U.S. Government-financed programs be shipped in U.S.-flag commercial vessels. Due to higher costs, the prices charged by American shippers are generally higher than prices charged by foreign-flag vessels. In the case of shipments under Titles I and IV of P.L. 480 the U.S.-flag carrier receives dollars for the full amount of shipping costs and the recipient government pays the U.S. Government local currency equivalent to the foreign-flag rate.

PUBLIC LAW 480 FINANCIAL OPERATIONS

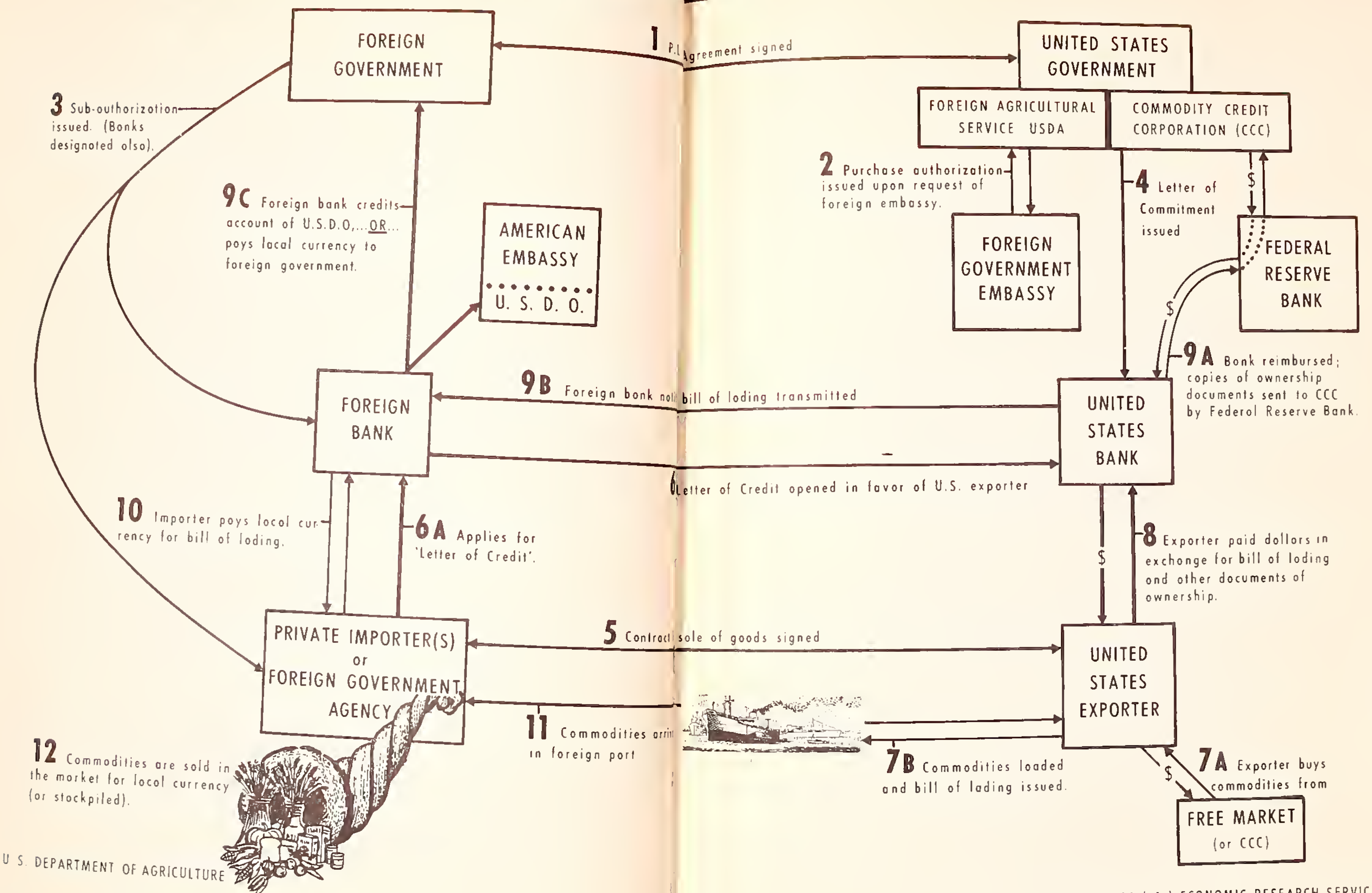

Figure 2

8. Exporter is paid.--The exporter presents the bill of lading, weight and inspection certificates, and other required documents to the U.S. bank, and receives payment in dollars at the price agreed upon in the sales contract and within the terms of the letter of credit previously received.

9 (a, b, and c). Bank transactions.--The U.S. bank presents copies of the ownership documents to the Federal Reserve Bank named in the letter of commitment. The Bank, acting as the agent of CCC, pays dollars to the U.S. bank, or credits its reserve account (step 9a). The U.S. bank then notifies the foreign bank of the transaction and transmits the bill of lading (step 9b).

Steps 1 to 9b of the financial operations chart are representative of both Title I and Title IV programs. An exception arises at step 9c. At this point, under a Title I program, the foreign bank is required to deposit local currency to the account of the U.S. Disbursing Officer (U.S.D.O.) immediately upon receipt of documentation from the U.S. bank. The subsequent use of these currencies is discussed in part III of this report.

The U.S.D.O. is a State Department official attached to the American Embassy who is charged with the responsibility of administering local currencies in accordance with Treasury Department regulations and directives. The bank used by the U.S.D.O. may or may not be the one which directly engages in the P.L. 480 transactions.

In countries with exchange restrictions and multiple exchange rates, section 101(f) of the Act requires that the rate of exchange at which the deposit is made (the deposit rate) must be "...not less favorable than the highest of exchange rates legally obtainable from the Government or agencies thereof...." Countries with unitary exchange rates will, of course, present no problem in this respect. In any case, the deposit rate must be that rate of exchange which is in effect on the day the Federal Reserve released dollars to the U.S. bank. The foreign bank thus bears the exchange risk.

Under Title IV (long-term sales for dollars) the foreign government pays dollars to the U.S. Government over the time periods and at the interest rates stipulated in the P.L. 480 agreement. Loans may be repaid over periods up to 20 years, with a 2-year grace period, although most agreements carry credit provisions less lenient than the maximum allowable. Interest rates do not exceed the cost of money to the U.S. Treasury. The importer pays local currency to his government, which may then use it for economic development or for other purposes which conform to general provisions of the P.L. 480 agreement. In a country with a high rate of interest (rates are usually high in developing nations) the recipient government has an immediate and distinct financial advantage under Title IV programing. The foreign government receives the total amount of local currency soon after the shipment of commodities arrives, without the necessity of paying high local rates of interest. The recipient government need not repay dollars to the United States until the scheduled payments fall due. The foreign government thus receives budgetary or development support on terms more favorable than those usually available locally. Under Title IV financing, the recipient country can earn additional dollars in annual amounts which may exceed the scheduled payments;

there is, therefore, the possible additional advantage that adverse balance-of-payments effects of importing U.S. agricultural products will be eliminated. 4/

10 and 11. Commodities shipped and claimed.--Upon receipt of the bill of lading, the foreign bank delivers it to the importer in exchange for local currency. The importer pays his government, through the designated bank, in accordance with credit terms mutually agreed upon beforehand. These credit terms usually conform to accepted commercial practice in that country. The importer then uses the bill of lading to claim the goods when they arrive from the United States.

12. Distribution of commodities.--The importer makes final sale of the commodity within the recipient country through normal commercial channels. If the importer is a government agency or a state trading corporation (as is often the case), it may decide to stockpile the commodities for eventual distribution in time of need.

Part III. Foreign Currency Transactions

The objective of part III is to explain the allocation and movement of local currencies after they have been paid to the United States Government. A general understanding of the present overall procedure can be obtained by reference to figure 3, "Movement of Local Currencies Generated by P.L. 480." The following text material, which is to be used in conjunction with figure 3, is necessarily more detailed and more technical than parts I and II because of the somewhat more complex nature of the procedures described. Not all of the movements of local currencies are discussed here since most of the transfers are easily understood from a review of figure 3. Most of the detailed accounting procedures now followed are not specified in P.L. 480 itself, but are the result of administrative decisions made in executing the law.

Of particular importance is the explanation of the accounting symbols assigned to the various accounts by the U.S. Treasury Department. A knowledge of these symbols is essential if the reader wishes to use Treasury or other Government publications reporting on the expenditure or availability of local currencies. It should be noted, however, that these reports may include many account numbers other than those shown in figure 3, reflecting accounts containing foreign currencies generated under a program other than P.L. 480. Generally speaking, the procedures followed in handling other funds are similar to those followed in handling P.L. 480 funds. Also, Government reports for fiscal year 1961 and prior years carry a group of P.L. 480 accounts which were closed out and consolidated into one account (20FT4336D) on July 1, 1960.

Disbursing Officer's master account.--In figure 2, step 9c, the foreign bank which holds the account of the U.S. Disbursing Officer (U.S.D.O.) credits this account with the local currencies generated by sale of commodities under

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4/ For complete discussion of this point, see: Elrod, Warrick E., Jr. Monetary Effects of Financing Agricultural Exports Through Programs Under Titles I and IV, Public Law 480. Foreign Agr. Econ. Rpt. 12, U.S. Dept. Agr., Nov. 1963.

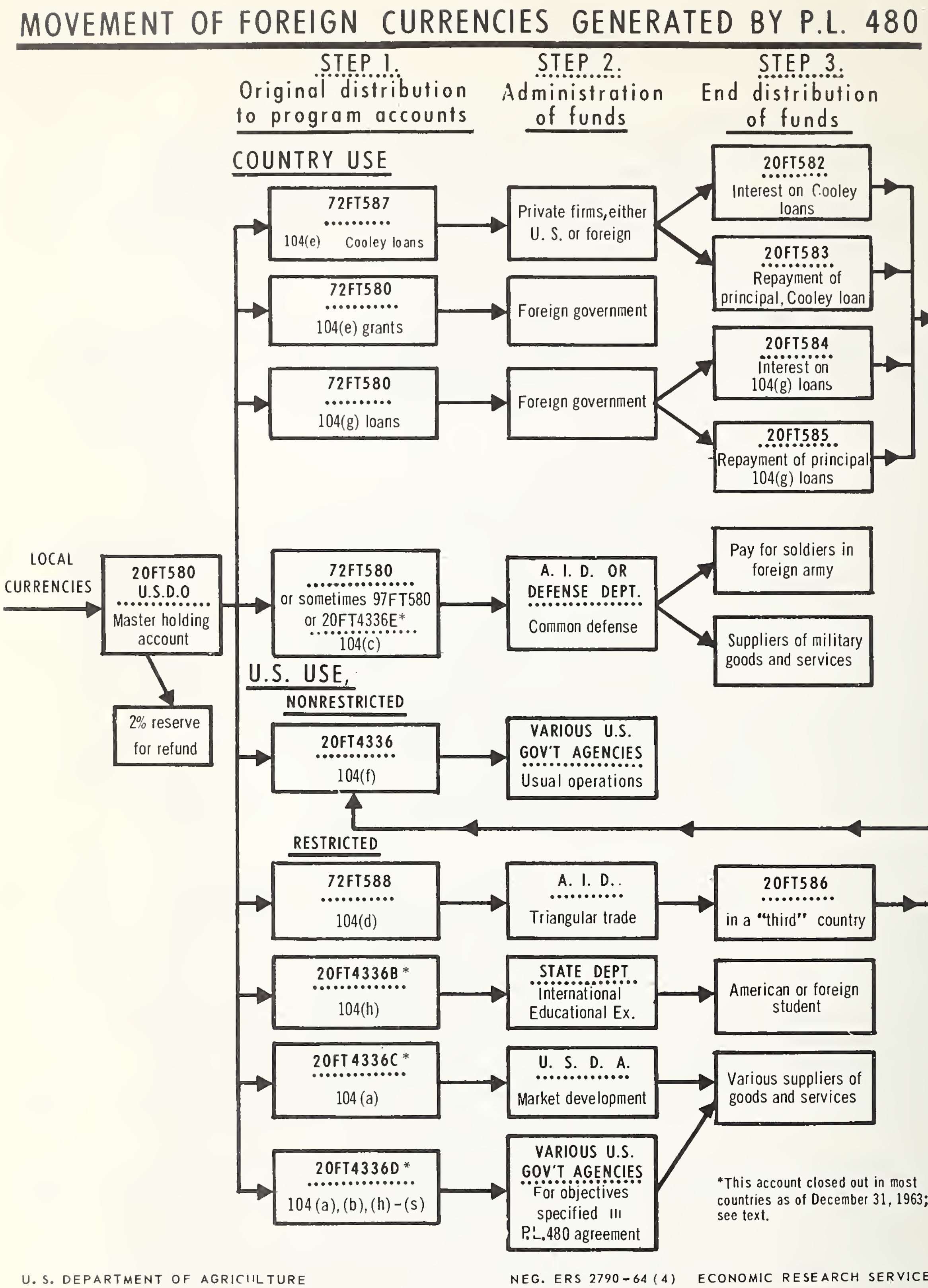
MOVEMENT OF FOREIGN CURRENCIES GENERATED BY P.L. 480
STEP 1. Original distribution to program accounts
STEP 2. Administration of funds
STEP 3. End distribution of funds
COUNTRY USE
72FT587 104(e) Cooley loans
Private firms, either U. S. or foreign
20FT582 Interest on Cooley loans
20FT583 Repayment of principal, Cooley loan
72FT580 104(e) grants
Foreign government
72FT580 104(g) loans
Foreign government
20FT584 Interest on 104(g) loans
20FT585 Repayment of principal 104(g) loans
LOCAL CURRENCIES
20FT580 U.S.D.O Master holding account
2% reserve for refund
72FT580 or sometimes 97FT580 or 20FT4336E* 104(c)
A. I. D. OR DEFENSE DEPT. Common defense
Pay for soldiers in foreign army
Suppliers of military goods and services
U.S. USE,
NONRESTRICTED
20FT4336 104(f)
VARIOUS U.S. GOV'T AGENCIES Usual operations
RESTRICTED
72FT588 104(d)
A. I. D. Triangular trade
20FT586 in a "third" country
20FT4336B * 104(h)
STATE DEPT International Educational Ex.
American or foreign student
20FT4336C * 104 (a)
U. S. D. A. Market development
Various suppliers of goods and services
20FT4336D * 104 (a), (b), (h) - (s)
VARIOUS U.S. GOV'T AGENCIES For objectives specified in P.L.480 agreement
*This account closed out in most countries as of December 31, 1963; see text.
U. S. DEPARTMENT OF AGRICULTURE
NEG. ERS 2790-64 (4)
ECONOMIC RESEARCH SERVICE

Figure 3

a P.L. 480 agreement. In the accounting system of the U.S. Government, these funds move into a Treasury holding account number 20FT580, the U.S.D.O.'s "master account." If the 20FT580 account number has a suffix "G" it denotes that the local currencies are guaranteed against loss of value through devaluation; that is, there is a maintenance-of-value clause in the formal agreement. This clause requires that the foreign government make a supplemental deposit sufficient to compensate for any loss of value that may have occurred between the time of deposit and the time that the funds are drawn out of the holding account. This guarantee has not been included in the more recent agreements. If there is more than one agreement signed with a particular country, the second agreement is designated by an account number of 20FT580.2, a third program by 20FT580.3, and so on.

A 2-percent reserve is kept in the master holding account for 2 years, and 1 percent thereafter, in the event that a refund to the importer is required. There are a number of situations in which a refund is necessary. For example, the quantity or quality of commodities actually received by the importer may not agree with that stated on the bill of lading, which is what the importer paid for. After a certain period of time, usually 3 years in the more recent sales agreements, the refund reserve is allocated to the program accounts and the master holding account is closed out. Any refund that is subsequently required is paid from a refund reserve established in a later sales agreement. If there were no such agreements, funds would be turned over to the recipient country for this purpose with the understanding that it would do the refunding.

Original distribution to program accounts.--As mentioned in part II, the P.L. 480 agreement for a Title I program stipulates the uses of local currencies. The possible uses of these currencies are set forth in section 104, subsections (a) through (s), of the Act (see appendix). In practice, funds are not generally used for all of the possible purposes. Funds to be used for any specific purpose of the Act are transferred from the 20FT580 master holding account to one of the program accounts shown in step 1 of figure 3. (Transfer of funds occurs upon issuance of a transfer authorization by the Department of the Treasury.) The number of each account indicates the use of the funds and the administering agency. The first two digits identify the department or agency receiving the local currencies. The three agency accounts involved in this study are the Treasury Department, Agency for International Development (AID), and the Defense Department, with codes of 20, 72, and 97, respectively. Other U.S. agencies, notably the Departments of State and Agriculture, have programs which require local currencies, but these agencies do not directly receive the funds. (The procedure for handling their obligations is discussed below.) The letters "FT" (foreign transactions) in the account numbers denote that the currencies were acquired by the United States without being purchased with dollars. The lower number shown in each of the boxes under step 1 of the currency flow chart is the number of the subsection of section 104 of P.L. 480 which describes a particular purpose or objective for which local currencies may be used.

Funds in the program accounts may be classified in three ways: (1) available for use by the recipient country or by the United States, (2) available to the administering agency in return for appropriated dollars or not requiring

appropriations, or (3) restricted for a specific use or available on a nonrestricted basis.

Since the passage of P.L. 480 in 1954 approximately three-fourths of all local currencies generated under Title I have been designated for use by the recipient country and one-fourth for agencies of the U.S. Government with operations abroad. As a rule, all funds for country use are available to AID, the agency which administers the funds, without expenditure of dollars from its Congressional appropriations. Accounts containing funds made available without dollar appropriations are indicated by three digits following the letters FT in the account number. For example, the Treasury Department has assigned an account number of 72FT580 for 104(g) loans (intergovernmental loans). On the other hand, funds for U.S. use are generally obtained by the agencies from the U.S.D.O. in exchange for appropriated dollars. Accounts containing funds that must be so purchased are known as sales accounts and are indicated by four digits following the letters FT. For example, local currencies for section 104(f) of the Act (payment of any U.S. obligation in the recipient country) are transferred into account 20FT4336.

There are several exceptions to the above two generalizations. Funds for common defense, section 104(c) of P.L. 480, are generally expended by AID from account number 72FT580 without the necessity of surrendering appropriated dollars to the U.S.D.O. In a few instances, local currencies for common defense have been purchased from the U.S.D.O. with appropriated dollars of the Department of Defense, in which cases the funds are expended from account number 20FT4336E. (The use of suffix letter E is discussed below.) Local currency funds are presently made available without expenditure of appropriated dollars for the purposes of sections 104(f) Congressional travel, and 104(d), which is the purchase of goods and services for other friendly nations (this practice is often called triangular trade). At one time, funds for this latter purpose had to be purchased with dollars from account number 20FT4336A. This account was subsequently closed out and is not now used.

Funds in the program accounts may also be classified as restricted or nonrestricted. Restricted funds are those that must be used by a specific agency for a particular purpose. Thus, it follows that all funds for country use, and all those for U.S. use except 104(f), are restricted. Furthermore, it follows that funds in all three-digit accounts are restricted, as well as funds in the four-digit accounts with a letter suffix A, B, C, D, or E (keeping in mind that 20FT4336<u>A</u> is no longer used). The 104(f) funds in account 20FT4336 are nonrestricted and can be used for payment in a particular country of any bona fide obligation of any U.S. agency. Nonrestricted currencies are not necessarily free of all restraints under the local exchange laws or under the terms of international agreements, but they can generally be purchased from the U.S.D.O. with appropriated dollars for normal operations of any U.S. agency within the country concerned.

In the past, the total amount of local currencies owned by the United States in a particular country was not always a meaningful figure in connection with U.S. balance-of-payments problems. If the U.S. Government needed local currencies for one purpose, currencies available but restricted by law and administrative determinations for another purpose were not helpful. For

this reason a law was passed on December 31, 1963, which resulted in the transfer of U.S.-use funds from restricted sales accounts (20FT4336B, C, D, and E) to the nonrestricted sales account 20FT4336. (This transfer was not effected in all countries.) Immediate use could thereafter be made of local currencies that had accumulated in some of the restricted accounts which were not presently needed by the agency for which they had been set aside. Agencies possessing such currencies were issued Foreign Currency Reservation Certificates to compensate for the currencies surrendered. These certificates authorize the agencies to buy local currencies from the 20FT4336 sales account as they need funds and as their budget permits. If, at some future point, the U.S.D.O.'s supply of local currencies has been depleted because of purchases by other agencies, the U.S.D.O. is required to go into the local money market and purchase with dollars the necessary amounts of local currencies.

Although the restricted U.S.-use four-digit accounts are not used in many countries today, a few of their characteristics should be mentioned. In figure 3, under "U.S. uses," funds specified for section 104(a) (market development) of P.L. 480 may be allocated into either account 20FT4336C or 20FT4336D. The local currencies in 20FT4336C may be purchased by USDA with dollars from its regular appropriations. The currencies in 20FT4336D must be purchased from restricted appropriations, that is, appropriations which carry a Congressional stipulation that the dollars must be used only to purchase local currencies for the purposes stated in 104(a). Similarly, funds specified for section 104(h) (international educational exchange) may be allocated to either account 20FT4336B (regular appropriations) or 20FT4336D (restricted appropriations). The currencies in account 20FT4336E must also be purchased with dollars from restricted appropriations of military agencies.

There is a provision in P.L. 480 which states that not less than 2 percent of the currencies generated shall be made available for conversion into currencies of third countries for the purpose of market development. These currencies are first transferred into account 20FT4336C or 20FT4336D and the host country is then requested to effect the conversion.

Administration of funds.--Country-use currencies are generally administered by AID and may be:

(1) Lent to:
- (a) The recipient country (104(g) loans)
- (b) Private U.S. or foreign firms located in that country (104(e) Cooley loans), or

(2) Granted to the recipient country, or

(3) Used to purchase military supplies, facilities, or services.

In lending local currencies to a foreign country, the terms of the loans are included in loan agreements which establish lines of credit up to the amounts planned in the sales agreement. The loan agreements state the rate of interest to be charged and provide that loans may be repaid in dollars or in the currency of the borrower.

U.S.-use funds are used to pay the obligations of various U.S. Government agencies. When a local obligation of a particular agency is paid, dollars are transferred from a dollar account of that agency to the revolving account of CCC (account number 12X4336). The dollars transferred to this account are then used to assist in the U.S. agricultural price support program as shown in part I of this report.

End distribution of funds.--All 104(e) and 104(g) loans are repaid to the U.S. Government with interest and enter account 20FT582, 583, 584, or 585. The funds in account 20FT586 are generated by a P.L. 480 agreement signed in a third country. In an agreement with country A, the United States will purchase goods with the currency of A for country B. The U.S. Government will then ship the goods to B and sell them to B for its currency. These funds are deposited in account 20FT586 in country B and are then handled like the funds entering accounts 20FT582, 583, 584, or 585.

After funds have entered accounts 20FT582-586 they are immediately transferred to the nonrestricted sales account and used to support United States operations in any particular country.

APPENDIX

Foreign Currencies Available to Purchasing Countries
(country use)

1. Section 104(c): Procurement of military supplies, facilities, and services for the common defense--Department of State (AID).

2. Section 104(e): Foreign currency grants to foreign governments for economic development--Department of State (AID); Loans in currencies to private business firms, to U.S. firms for business development and trade, and to U.S. firms and firms of the host country to establish facilities to help consume and market U.S. agricultural products--formerly administered by Export-Import Bank of Washington, now administered by AID.

3. Section 104(g): Loans to promote economic development in participating countries--Department of State (AID).

Foreign Currencies Available to the U.S. Government
(U.S. use)

1. Section 104(a): Development of markets for U.S. agricultural commodities by cooperative programs with trade and agricultural groups, trade fair activities, and utilization and marketing research grants to foreign institutions--Department of Agriculture.

2. Section 104(b): Purchase of strategic and other materials for the supplemental stockpile--Office of Defense Mobilization.

3. Section 104(d): Purchase of goods and services for other friendly nations--Department of State (AID).

4. Section 104(f): Payment of U.S. obligations abroad (including military family housing)--any authorized U.S. Government agency.

5. Section 104(h): International educational exchange--Department of State.

6. Section 104(i): Translation, publication, and distribution of books and periodicals--U.S. Information Agency.

7. Section 104(j): Assistance to American-sponsored schools, libraries, and community centers--Department of State and U.S. Information Agency.

8. Section 104(k): Translation and dissemination of scientific publications and programs of scientific agricultural, medical, cultural, and education cooperation--U.S. Information Agency, U.S. Department of Agriculture, and other U.S. Government agencies as authorized.

9. Section 104(l): Acquisition of sites and buildings for U.S. Government use abroad--Department of State.

10. Section 104(m): Participation in agricultural and horticultural fairs and trade fair centers--U.S. Information Agency.

11. Section 104(n): Acquisition, indexing, and dissemination of foreign publications--Library of Congress.

12. Section 104(o): Expansion of U.S. educational studies--Department of State.

13. Section 104(p): Supporting workshops and chairs in U.S. studies--Department of State.

14. Section 104(q): Purchase of nonfood items for emergency relief purposes--Department of State (AID).

15. Section 104(r): Audio-visual informational and educational materials--Department of State (AID).

16. Section 104(s): Sales of currencies for dollars to American tourists--Treasury Department.

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